

Subordinated bonds as a Tier 2 capital instrument

Abstract

This rigorous thesis the topic of which is “Subordinated bonds as a Tier 2 capital instrument” elaborates on bank regulation and possible ways of how to comply with it. Specifically, whether it is possible (and how) to meet Tier 2 capital requirement as one of the requirements of capital adequacy.

Following the introduction to this rigorous thesis and setting forth the scientific methods of work the author follows a development of capital adequacy as one of the core requirements of the current bank regulation. This historical development has been put into conjunction with the leading feature of this development – whether it was a globalisation of banking services or specificities of 2008 financial crisis. The Tier 2 capital requirement is explained on this background. This topic is completed with the purely economic chapter that elaborates and explains reasons of financial regulation and goals that the financial regulation tends to accomplish. To be specific, it concerns the theoretical model of perfect competition and particular market failures. The understanding of market failures is a key to the well-drafted financial regulation.

While banks tend to complain about the amount of regulation they need to comply with on a daily basis, the goal of this thesis was to analyse one of the requirements and research the way of meeting this requirement. Given that the practice experienced that subordinated bonds can be qualified as Tier 2 capital, it became inevitable to research more into detail this financial instrument.

Throughout this thesis, the author analysed ways of issuance of subordinated bonds and features that the issuance must have so that these subordinated bonds can be qualified as Tier 2 capital instrument. The goal of this thesis was among other things to provide a complex and complete analysis of this topic, present on a practical example how to comply with one of the requirements of bank regulation and finally to respond to scientific questions stated in the introduction of this thesis.

Key words: bank regulation, subordinated bonds, Tier 2 capital